Supreme Court, U.S.
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No. ____ OFFICE OF THE CLERK

In The

Supreme Court of the United States

October Term, 1994

DRUG EMPORIUM, INC.,

Petitioner,

vs.

PARFUMS GIVENCHY, INC.,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Is the "first sale doctrine" in § 109(a) of the Copyright Act a defense to an action for infringement under § 602(a) of the Act, when genuine goods with a copyrighted package design were imported into this country after the copyright owner sold them abroad?

2. Do retailers who sell goods imported into this country by others violate the prohibition against unauthorized "importation" in § 602(a) of the Copyright Act?

LIST OF PARTIES TO THE PROCEEDING AND RULE 29.1 STATEMENT

The parties to the proceedings below were petitioner Drug Emporium, Inc., and respondent Parfums Givenchy, Inc.[1]

Petitioner Drug Emporium, Inc., has no parent company or subsidiary (except wholly-owned subsidiaries).

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[1] Several *amici curiae* filed briefs in the court of appeals below. The Coalition for Competitive Imports and Costco Wholesale Corporation filed separate briefs in support of petitioner Drug Emporium, Inc. The Coalition to Preserve the Integrity of American Trademarks, the National Consumers League, and the Food & Allied Service Trades Department, AFL-CIO, jointly filed a brief in support of respondent Parfums Givenchy, Inc.

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OPINIONS BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.,* is reported at 38 F.3d 477 and is reprinted in the appendix at App. 1-18. The findings of fact and conclusions of law of the United States District Court for the Central District of California are reported at 1993 Copr.L.Dec. p. 27,116 and are reprinted in the appendix at App. 19-23. The judgment of the district court is unpublished, and is reprinted in the appendix at App. 24-25.

JURISDICTION

This petition seeks review of a judgment of the United States Court of Appeals for the Ninth Circuit entered on October 21, 1994. On November 4, 1994, petitioner Drug Emporium, Inc., filed a suggestion for rehearing en banc, which the court of appeals treated as both a petition for rehearing and a suggestion for rehearing en banc. On January 12, 1995, the court of appeals denied the petition for rehearing and rejected the suggestion for rehearing en banc. This petition is filed within 90 days of the entry of judgment, pursuant to 28 U.S.C. § 2101(c) and U.S. Supreme Court Rule 13.4.

The jurisdiction of this Court to review the judgment of the court of appeals is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Sections 106, 109(a), 501(b), and 602(a) of the Copyright Act, 17 U.S.C. §§ 106, 109(a), 501(b), and 602(a), are reprinted in the appendix at App. 26-28.

STATEMENT OF THE CASE

1. This case concerns the relationship between two provisions of the Copyright Act. Section 109(a) codifies the "first sale doctrine" – the common law principle that a copyright owner may not control the disposition of a particular copy after he or she sells it. The first sale doctrine allows the purchaser of the copy, "without the

authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a). However, § 602(a) provides that the importation of copies, "without authority of the owner of copyright," is an infringement of the owner's right to distribute copies. 17 U.S.C. § 602(a).

The issue here is whether Congress, by enacting this statutory scheme, intended to prohibit the copyright owner's competitors from importing and selling copyrighted goods which the copyright owner (or its affiliate) previously sold abroad. A second question is whether § 602(a), in prohibiting unauthorized "importation", subjects retailers to liability for copyright infringement when they have not imported but simply resold goods imported by others.

2. "Amarige" perfume is produced in France by Parfums Givenchy, S.A. ("Givenchy France"). The perfume itself is not copyrightable. However, Givenchy France copyrighted a graphic design that decorates the boxes in which individual bottles of Amarige are sold.[2]

The perfume at issue in this case was sold in Europe by Givenchy France, which owned the U.S. copyright in the graphic design when the sale occurred. Third parties purchased the perfume abroad and imported it into the United States. Givenchy France, which still owned the U.S. copyright at the time, did not authorize the importation. Shortly afterwards, Givenchy France assigned the

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[2] A reproduction of the Amarige box appears in the appendix at App. 53.

copyright to respondent Parfums Givenchy, Inc. ("Givenchy USA"), its wholly owned U.S. subsidiary. Givenchy USA then became the "owner of copyright" within the meaning of §§ 106 and 602(a).

Petitioner Drug Emporium, Inc. ("Drug Emporium") operates a chain of discount drug stores throughout the United States. It bought the Amarige perfume at issue from a third-party wholesaler in the United States. Then it sold the perfume in the original boxes bearing the copyrighted graphic design. Unlike the importation of the perfume, these sales occurred after Givenchy USA acquired the copyright.

3. Givenchy USA sued Drug Emporium in the United States District Court for the Central District of California,[3] alleging a single count of copyright infringement under 17 U.S.C. § 602(a). Drug Emporium's principal defense was that its sales of Amarige were protected by the first sale doctrine in 17 U.S.C. § 109(a). Drug Emporium also claimed that Givenchy USA lacked standing to sue because, at the time of importation, Givenchy USA was neither a copyright owner nor an "owner of an exclusive right under a copyright" as required by 17 U.S.C. § 501 (b).

The district court entered summary judgment in favor of Givenchy USA. After holding that Givenchy USA had standing to sue, the court held that Drug Emporium had violated § 602(a), and that its conduct was not

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[3] *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, Case No. 92-4206-MRP. The complaint alleged jurisdiction under 28 U.S.C. §§ 1331 and 1338.

"excused" by § 109(a). App. 23. In support of this holding the court relied on *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), *cert. den.*, ___ U.S. ___, 112 S.Ct. 2297, 120 L.Ed.2d 873 (1992).[4] In *BMG Music*, the Ninth Circuit held that the first sale doctrine does not provide a defense to infringement under § 602(a) for copyrighted goods manufactured and sold abroad.

On appeal, the Ninth Circuit first ruled that Givenchy USA had standing to sue because it was the U.S. copyright owner when Drug Emporium made its retail sales (though not the copyright owner at the time of importation). The court stated that § 602(a) was violated "when Drug Emporium *attempted to distribute* the perfume that had been imported without Givenchy USA's (or Givenchy France's) authorization." App. 5 (emphasis in text).

Second, the court of appeals ruled that the first sale doctrine cannot be a defense to an action under § 602(a) if the copyrighted article was first sold outside the United States. The court acknowledged that the relationship between the first sale doctrine in § 109(a) and the importation provision of § 602(a) is not clear:

> There are at least two plausible interpretations of the interaction of the importation right and the first sale doctrine as embodied in §§ 602(a) and 109(a).

App. 7. In deciding as it did, the court considered itself bound by the earlier Ninth Circuit panel decision in *BMG*

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[4] The opinion in *BMG Music v. Perez* is reprinted in the appendix at App. 29-35.

Music, supra. It announced, however, a new rationale to support its decision: that § 602(a) was intended to ensure

> that a U.S. copyright owner will gain the full value of each copy sold in the United States, by preventing the unauthorized importation of copies sold abroad from being used as a means of circumventing the copyright owner's distribution rights in the United States.

App. 8. It refused to distinguish between a first sale made by the copyright owner itself and one made, as in *BMG Music*, by a licensee: "the relationship between the copyright holder and the seller abroad is irrelevant." App. 12, n.9.

Finally, the court of appeals rejected arguments that any conflict between §§ 109(a) and 602(a) should be resolved by resort to decisions interpreting the Tariff Act and the Lanham Trademark Act. Those decisions refused to infer an intent by Congress to protect trademark owners from gray-market competition[5] when the trademark owner itself (or its affiliate) first sold trademarked goods abroad. *See, e.g., NEC Electronics, Inc. v. Cal Circuit Abco*, 810 F.2d 1506, 1511 (9th Cir. 1987), *cert. den.*, 481 U.S. 851, 108 S.Ct. 152, 98 L.Ed.2d 108 (1987). The court found those decisions inapposite because "the Copyright Act has a purpose, scope and statutory scheme different

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[5] "Gray-market" goods, or "parallel imports," are genuine products possessing a brand name protected by a trademark or copyright. They are typically manufactured abroad, and purchased and imported into the United States by third parties, thereby bypassing the authorized U.S. distribution channels. *See* App. 7, n.6.

from either the Tariff or Lanham Trademark Acts." App. 14.

REASONS FOR GRANTING THE WRIT

I. A Ripe Conflict Exists Between The Third And Ninth Circuits Concerning The Relation Between §§ 602(a) And 109(a).

A. The Nature of the Conflict

The decision below places the Ninth Circuit in conflict with the only other circuit court that has considered the relation between §§ 109(a) and 602(a). In *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988),[6] an American manufacturer sold consumer products bearing copyrighted labels to a South African company, which shipped the products back to the United States for resale. The district court held the South African company liable under § 602(a), and the Third Circuit reversed. The appellate court held that "a first sale by the copyright owner extinguishes any right later to control importation of those copies," and that "the place of sale is not the critical factor in determining whether section 602(a) governs." App. 49.

Sebastian was decided on the explicit basis that the first sale occurred outside the United States. The plaintiff copyright owner in *Sebastian* argued that "Sec. 602(a) prohibits importation into the United States . . . if as here . . . the 'first sale' of the products does not occur in

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[6] The opinion in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.* is reprinted in the appendix at App. 36-51.

the United States."[7] App. 49, n.2. The Third Circuit rejected that argument and held the first sale doctrine of § 109(a) applied even though the first sale did "not occur in the United States."

In sum, *Sebastian* holds that a first sale abroad by the copyright owner establishes a defense under § 109(a) to an action under § 602(a). The Ninth Circuit's decision in this case holds squarely the opposite. The court ruled that (1) "sales *abroad* do not constitute a defense to copyright infringement under § 602(a)," and (2) "the relationship between the copyright holder and the seller abroad is irrelevant." App. 12, n.9 (emphasis in text). Thus, in the Ninth Circuit but not the Third, "the importation right [granted by § 602(a)] survives . . . unless and until there has been a 'first sale' *in the United States.*" App. 8 (emphasis in text).

B. The Conflict in Rationales

The two circuits also disagree about the nature and purpose of § 602(a). The Ninth Circuit views § 602(a) as creating an "importation right" separate and distinct from the right of distribution conferred by § 106(3) of the Copyright Act. The purpose of the importation right is to ensure that a U.S. copyright owner realizes the "full value" of every copy sold in this country, even those it previously sold abroad at a profit. The Third Circuit, by contrast, holds that § 602(a) merely defines a particular

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[7] The *BMG Music* court overlooked this fact, and erroneously concluded that *Sebastian* involved goods "originally manufactured and sold in the United States." App. 32, n.3.

infringement of the § 106(3) right of distribution, and is not designed to maximize the copyright owner's profit.

1. The Third Circuit in *Sebastian* considered the role of § 602(a) in the statutory scheme of the Copyright Act. It noted that § 602(a) "creates an infringement of the exclusive right of distribution when copies acquired outside the United States are imported into this country without the copyright owner's permission." App. 44. Section 602(a) only refers to infringement of "the exclusive right to distribute copies . . . under section 106." 17 U.S.C. § 602(a). The court identified two possible interpretations of § 602(a):

> The first, and most sweeping, construction declares that in addition to the distribution rights conferred by section 106(3), section 602(a) grants copyright owners yet another distinct right – one that frees them from the first sale right of section 109(a), which otherwise limits section 106(3), and allows them to prevent the unauthorized importation of copyrighted copies. . . .
>
> The second interpretation reconciles sections 106(3) and 602(a) by reasoning that the importation prohibition does not enlarge the distribution rights, but serves only as a specific example of those rights subject still to the first sale limitation. . . . Although the domestic copyright holder undoubtedly would prefer to block such importation, the statutory language does not expressly authorize such control.

App. 45-46. The *Sebastian* court concluded that because § 602(a) merely defines a particular application of the distribution right granted by § 106(3), it is limited by

§ 109(a) which, by its terms, applies "notwithstanding the provisions of section 106(3)." 17 U.S.C. § 109(a); *see also* 17 U.S.C. § 106 (rights granted by § 106 are "[s]ubject to sections 107 through 120"). The court therefore adopted the second, more restrictive interpretation: "a first sale by the copyright owner extinguishes any right later to control importation of those copies." App. 49.

The Ninth Circuit in this case agreed that there "are at least two plausible interpretations of the interaction" between §§ 602(a) and 109(a). App. 7. However, unlike the Third Circuit, it chose the first, more sweeping construction: "sales *abroad* of foreign manufactured United States copyrighted materials do not terminate the United States copyright holder's exclusive distribution rights in the United States under §§ 106 and 602(a)." App. 10, n.8 (emphasis in text).

2. The *Sebastian* court also addressed the purpose of § 602(a). It found that the statute was designed to protect U.S. copyright owners from goods made and sold abroad by foreign licensees. "The hearings revealed the copyright owners' desire to prevent importation . . . of copies made by licensees in foreign countries." App. 44. After reviewing district court decisions that applied § 602(a) to goods made under license, App. 46-48, the court of appeals emphasized how the case before it differed from situations where goods were made abroad by an unrelated licensee: "Sebastian produced and sold the same copies which it now seeks to control."[8] App. 48.

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[8] *But see Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without*

By contrast, the Ninth Circuit found no "dichotomy between sales by the copyright holder itself and by its licensees." App. 12, n.9. In support of this finding, however, the Ninth Circuit cited two cases decided under the 1909 Copyright Act.[9] Section 602(a) was adopted in the 1976 Copyright Act.

3. The *Sebastian* court considered the role of economic reward in the Copyright Act generally:

> [Copyright] monopoly privileges are "neither unlimited nor primarily designed to provide a special private benefit." . . .
>
> . . . Ultimately, the copyright law regards financial reward to the owner as a secondary consideration.

App. 40 (*quoting Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 104 S.Ct. 774, 782, 78 L.Ed.2d 574 (1984)). The "secondary" importance of reward to the copyright owner is reflected in the first sale doctrine. The applicability of the doctrine turns on whether " 'there has been such a disposition of the copyrighted article that it may fairly be said that the copyright proprietor has received his reward for its use.' " App. 43-44 (citation omitted). The doctrine prevents the copyright owner from realizing an even greater reward by

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opinion, 738 F.2d 424 (3d Cir. 1984) (first sale by unrelated foreign licensee not a defense in action under § 602(a)).

[9] These cases under the 1909 Act were *United States v. Atherton*, 561 F.2d 747 (9th Cir. 1977), and *Platt & Munk v. Republic Graphics*, 315 F.2d 847 (2nd Cir. 1963).

controlling the disposition of copies after the first authorized sale. The Third Circuit found these same considerations to apply in an action under § 602(a):

> With respect to future distribution of those copies in this country [after importation], clearly the copyright owner [Sebastian] has received its reward through the purchase price.
>
> Nothing in the wording of section 109(a), its history or philosophy, suggest that the owner of copies who sells them abroad does not receive a "reward for his work." Nor does the language of section 602(a) intimate that a copyright owner should receive "a more adequate award" than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

App. 49.

In contrast, the Ninth Circuit below viewed maximization of reward as the central purpose of § 602(a). It reasoned that § 602(a) "ensures that a U.S. copyright owner will gain the full value of each copy sold in the United States, by preventing the unauthorized importation of copies sold abroad from being used as a means of circumventing the copyright owner's distribution rights in the United States." App. 8. That is precisely the reasoning rejected in *Sebastian*.

C. This Court Should Not Wait to Resolve the Conflict.

1. This case presents an appropriate factual context in which to resolve the conflict concerning the relationship between §§ 109(a) and 602(a). The case was decided in the district court by summary judgment. The undisputed facts are similar in all relevant respects to those in *Sebastian*. In both cases, the goods were both manufactured and first sold by the U.S. owner of copyright. In both cases, the first sale occurred abroad.[10] Both cases involved goods which themselves were not copyrighted, but which simply had a copyrighted design on the package or label.

One factual difference in *Sebastian* – that the goods in that case were manufactured in the U.S. and then exported before the first sale overseas – was noted by the Ninth Circuit, which "declined to speculate about how we would decide the facts in *Sebastian*." App. 9, n.7.[11] This factual difference, however, was not material to the reasoning below. The court of appeals said its "rationale [from *BMG Music*] . . . is that sales *abroad* do not constitute a defense to copyright infringement under § 602(a)."

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[10] This point was totally missed by the Ninth Circuit panel that decided *BMG Music*, which erroneously concluded that *Sebastian* involved goods "originally manufactured and sold in the United States. App. 32, n.3.

[11] Similarly, the *Sebastian* court declined to consider the case in which "the copies were produced abroad and the sales occurred overseas." App. 48.

App. 12, n.9 (emphasis in original). The place of manufacture is irrelevant to this rationale.[12]

2. Future appellate decisions are not likely to shed further light on the relationship between sections 109(a) and 602(a). Both the Third and the Ninth Circuits identified the same problem concerning that relationship. The Ninth Circuit stated in this case, "There are at least two plausible interpretations of the interaction of the importation right and the first sale doctrine as embodied in §§ 602(a) and 109(a)." App. 7. The Third Circuit stated in *Sebastian*, "The interrelationship between sections 602(a) and 109(a) may be interpreted in two possible ways. . . . " App. 45. Future cases will not find anything different.

This problem involves a fundamental area of federal law, the Copyright Act, which potentially affects many forms of commerce – from computer software to any consumer product (like the perfume here) that could have its label design copyrighted. Because § 602(a) concerns "importation," the issue affects an important sector of international trade. The conflict between this case and *Sebastian* is not trivial, or one for which any risks of a premature resolution by this Court will outweigh the costs of delay.

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[12] The court below explicitly endorsed *BMG Music*'s holding that "§ 109(a) grant[s] first sale protection only to copies legally *made and sold* in the United States." App. 32 (emphasis supplied). Under that holding, § 109(a) would not apply in this case even if the Amarige had been *manufactured* in the United States, because it was not *sold* in the United States.

II. The Relationship Between §§ 109(a) And 602(a) Involves An Important Question Of Federal Law With Broad Commercial And Policy Implications.

A. The Impact on Commerce and New Litigation

The Ninth Circuit's ruling below has been widely reported. The decision "to uphold this use of copyright could set off an avalanche of suits, threatening discount retailers that rely on importers for their bargains." *New York Times*, Nov. 25, 1994, at B11. "The rules for battling the multibillion-dollar gray market for imported cosmetics, electronics and jewelry have become more black and white, suggested several intellectual property attorneys who believe they have received a potent new litigation strategy courtesy of a Ninth Circuit decision upholding copyright protection for a perfume package." *N.Y.L.J.*, Dec. 1, 1994, at 5.

These implications are not exaggerated. By the simple expedient of preparing a label or package design and copyrighting it, any foreign producer of any consumer product can control all U.S. competition in its product in the United States – particularly price competition. Producers have not overlooked that strategy. Even as early as a year ago, the district judge who presided over this case noted that as a result of her decision "there have been countless cases filed here in the district." *Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, Case No. CV-92-7455-MRP (C.D. Cal.) (transcript Dec. 6, 1993 at 13, reprinted at App. 52.)

As the court of appeals below acknowledged, "serious policy considerations weigh on both sides of this debate, because of implications for the so-called 'gray

market' of imported goods." App. 7, n.6. An exceptional amount of commerce has been affected.[13]

B. The Impact on Policies Inherent in the First Sale Doctrine

The Ninth Circuit's decision to limit the applicability of § 109(a) implicates important policies inherent in the first sale doctrine. The doctrine "finds its origins in the common law aversion to limiting the alienation of personal property." *Sebastian*, App. 43. Even before the first sale doctrine was codified in 1909, our copyright laws were construed as not allowing "the restriction upon the subsequent alienation of [a copyrighted article] after the [copyright] owner had parted with the title to one who had acquired full dominion over it . . . " *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350, 28 S.Ct. 722, 726, 52 L.Ed. 1086 (1908).[14]

When codifying the doctrine in the 1909 Copyright Act, and then reenacting it as § 109(a) of the 1976 Copyright Act, Congress purported simply to restate existing law.[15] In amending the Copyright Act in 1990, Congress reaffirmed the integrity of the doctrine:

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[13] In its *amicus* brief filed in the appeals court below, the Coalition for Competitive Imports estimated the retail value of gray-market goods to exceed $130 *billion* annually.

[14] *See Stowe v. Thomas*, 2 Amer. Law Rep. (O.S.) 210, 213 (E.D. Pa. 1853) ("[A]uthor or his assignee disposes . . . to each purchaser . . . the absolute control and disposal of the material copy or copies purchased."); *Harrison v. Maynard, M. & Co.*, 61 F. 689, 691 (2d Cir. 1894); *Doan v. American Book Co.*, 105 F. 772, 776 (7th Cir. 1901).

[15] H.R. Rep. 2222, 60th Cong. 2d Sess. 28-29 (1909) ("Section 41 is not intended to change in any way existing law. . . . [I]t

> The first sale doctrine represents an important balancing of interests. The doctrine prohibits copyright owners from controlling the terms and conditions of further distribution of lawfully made copies of a work once the initial authorized distribution of those copies has taken place. . . . *Congress has, in the past, resisted proposals to alter the balance achieved in section 109, requiring those seeking amendments to make a compelling case for change.*

H.R. Rep. No. 735, 101st Cong. 2d Sess. 7, *reprinted in* 1990 U.S. Code Cong. & Ad. News at 6938. (emphasis added).

Patent law is relevant to interpreting copyright law "because of the historic kinship between patent law and copyright law." *Sony Corp.*, 464 U.S. at 439, 104 S.Ct. 787. Courts have long construed the patent laws to include a first sale doctrine, even though Congress has not codified it. *Adam v. Burks*, 84 U.S. (17 Wall.) 453, 456 (1873) (upon sale, a patented item "is open to the use of the purchaser without further restriction on account of the monopoly of the patentees"); *United States v. Univis Lens Co., Inc.*, 316 U.S. 241, 249, 62 S.Ct. 1088, 1093, 86 L.Ed. 1408 (1942); *Hensley Equip. Co. v. Esco Corp.*, 383 F.2d 252, 263 (5th Cir.

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would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale"); H.R. Rep. 1476, 94th Cong. 2d Sess. 79, *reprinted in* 1976 U.S. Code Cong. & Ad. News at 5693 ("Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy . . . , the person to whom the copy . . . is transferred is entitled to dispose of it by sale, rental, or any other means").

1967). Unlike the Ninth Circuit's new approach to the first sale doctrine in copyright cases under § 602(a), patent cases have long applied the doctrine when the first sale is made *abroad* by the patent owner itself or its affiliate.[16]

Courts similarly construe the trademark laws to include an uncodified first sale doctrine. *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368, 44 S.Ct. 350, 351, 68 L.Ed. 731 (1924); *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 129, 67 S.Ct. 1136, 1138, 91 L.Ed. 1386 (1947); *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 952 F.2d 44, 49 (3d Cir. 1991). *NEC Electronics*, 810 F.2d at 1508-10.

The Ninth Circuit's new limitation on the first sale doctrine marks a departure from this jurisprudence and legislative policy, in a case where both it and the Third Circuit have acknowledged that there are "two plausible interpretations" as to whether the doctrine should apply. In these circumstances, such a departure ought not go unreviewed.

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[16] *Holiday v. Matheson*, 24 F. 185 (S.D.N.Y. 1885) (sale in England of patented item); *Curtiss Aeroplane & M. Corp. v. United Aircraft E. Corp.*, 266 F. 71, 78 (2d Cir. 1920) (sale in Canada gave "complete title and full right to use and sell [patented] article in any and every country"); *Seiko v. Refac Technology*, 9 U.S.P.Q.2d 1046, 1049 (S.D.N.Y. 1988) (first sale exhausts patent monopoly, "even if that sale takes place abroad"); *cf. Sanofi, S.A. v. Med-Tech Veterinarian Products, Inc.*, 565 F. Supp. 931 (D.N.J. 1983) (first sale abroad of patented article by patent owner precludes that owner from enjoining subsequent U.S. sales of that article, but does not so preclude his unrelated exclusive U.S. licensee).

C. The Impact on Gray-Market Principles and National Competition Law

1. The Ninth Circuit's decision creates a disparity in the treatment of gray-market competition under copyright and trademark law. It undermines decisions holding that gray-market competition does not constitute trademark infringement if the American trademark holder is owned or controlled by the foreign manufacturer of the trademarked goods. *See, e.g., Ferrero U.S.A., Inc.*, 952 F.2d at 49; *NEC Electronics*, 810 F.2d at 1510-11. *Cf. Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587, 593 (5th Cir. 1993) (resale of genuine trademarked goods previously sold in the United States by the trademark owner itself does not constitute trademark infringement). *See also K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 108 S.Ct. 1181, 100 L.Ed.2d 313 (1988), where this Court upheld a Customs Service regulation that excluded American trademark owners from the protection of 19 U.S.C. § 1526(a),[17] if the owner and the foreign manufacturer are subject to common ownership or control.

The appeals court below nullified the protection these decisions afford to gray-market competition. By placing a copyrighted design on the label next to the trademark, a copyright and trademark owner can prevent

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[17] 17 U.S.C. § 1526(a) forbids the importation of goods bearing a registered U.S. trademark owned by an American citizen or corporation, without the trademark owner's written consent.

competition in the United States in goods that the owner made and sold abroad.[18]

2. The gray-market decisions cited above present a broader policy issue: absent a clear Congressional command, should a statute be construed to restrict free-market principles and limit competition? Congress has established "competition as the fundamental principle governing commerce in this country." *City of Lafayette v. Louisiana Power & Light Co.*, 435 U.S. 389, 398, 98 S.Ct. 1123, 1129, 55 L.Ed.2d 364 (1978). This Court has invoked the policy favoring competition to limit claims under ambiguous provisions of the patent law: "[T]his Nation's historical antipathy to monopoly and . . . repeated congressional efforts to preserve and foster competition" are grounds not to "expand patent rights." *Deepsouth Packing Co., Inc., v. Laitram Corp.*, 406 U.S. 518, 530-31, 92 S.Ct. 1700, 1708, 32 L.Ed.2d 273 (1972).

Competition principles have also been used to construe trademark statutes. *See Two Pesos, Inc. v. Taco Cabana, Inc.*, ___ U.S. ___, 112 S. Ct. 2753, 120 L. Ed. 2d 615 (1992) (protection of trade dress under the Lanham Act is to be accomplished so that "competition will not be stifled" and "anticompetitive effects" avoided); *Shakespeare Co. v. Silstar Corp. of America*, 9 F.3d 1091, 1101 (4th Cir. 1993) (in trade dress claims under the Lanham Act, a "certain amount of purchaser confusion may even be tolerated in order to give the public the advantages of

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[18] The *Sebastian* court acknowledged that "[a]though this case turns purely on copyright law, . . . the underlying 'gray market,' or 'parallel importing,' issues really are dominant." App. 50.

free competition"); *Calvin Klein Cosmetics Corp. v. Lenox Lab., Inc.*, 815 F.2d 500, 504 (8th Cir. 1987) ("free competition must be weighed against any individual's property interest in [a] trademark, so that the analytic focus should also be on the consumer's ability to obtain the lowest priced goods."); *NEC Electronics*, 810 F.2d at 1511 (Lanham Trademark Act not designed "to offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply though the expedient of setting up a American subsidiary with nominal title to its mark").

This Court has also addressed the balance between the competition policies of antitrust law and the reach of the Copyright Act. *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158-59, 68 S.Ct. 915, 929-30, 92 L.Ed. 1260 (1948). "[C]opyright is . . . an exception to the general public policy against restraints of trade." *Lasercomb Am. Inc. v. Reynolds*, 911 F.2d 970, 977 (4th Cir. 1990) (competition invoked to limit claims of copyright infringement when the copyright is misused).

In this case the Ninth Circuit shifted the boundary between the monopolies conferred on owners of intellectual property and the domain of free-market competition. This change will affect the outcome of numerous future lawsuits, raise the retail prices of many consumer goods, and alter the business decisions of national retailers who carry imported goods with copyrighted labels or other features. The decision below presents an important federal question that requires a uniform, nationwide rule.

III. Holding Non-Importing Retailers Liable For "Importation" Infringement Under § 602(a) Also Involves An Important Question Of Federal Law.

A. The impact of the Ninth Circuit's decision is compounded by the court's second holding: that "importation" infringement under § 602(a) occurred when Drug Emporium, a non-importing retailer, attempted to sell perfume imported by others. *See* App. 5. "The Copyright Act protects copyright owners against both unauthorized importation *and* subsequent unauthorized distribution of copies of copyrighted materials" by non-importers. *Id.* at n.2 (emphasis in original).

The statutory language, however, is quite specific. It only makes the act of "importation" an infringement of distribution rights. 17 U.S.C. § 602(a). The plain meaning of the words is that only those who participate in some fashion in the act of "importation" face liability for infringement.

Under other trademark and copyright statutes, the lower courts have fashioned a rule making resellers of infringing merchandise (particularly counterfeit works and misappropriated marks) liable as infringers. *See Stabilisierungsfonds Fur Wein v. Kaiser*, 647 F.2d 200 (D.C. Cir. 1981) (retailer of wine bearing misappropriated trademark); *Costello Pub. Co. v. Rotelle*, 670 F.2d 1035, 1042-43 (D.C. Cir. 1981) (distributor of religious book with misappropriated copyrighted material); *Grocers Baking Co. v. Sigler*, 132 F.2d 498, 502 (6th Cir. 1942) (distributor of bread bearing infringing mark enjoined, but no damages sought). *Cf. Sony Corp*, 464 U.S. at 435 (noting possible

contributory "liability for copyright infringements on certain parties who have not themselves engaged in infringing activity"); *id.* at 437 (but in past cases, "the 'contributory' infringer was in a position to control the use of copyrighted works by others").

None of these decisions, however, arise under a statute that makes one specific act (*i.e.*, "importation") the sole act of infringement. It is at best debatable whether Congress, by prohibiting only "importation," intended to subject non-importing retailers nationwide to copyright infringement liability – and to the Copyright Act's "potent arsenal of remedies," *Sony Corp.*, 464 U.S. at 433 – for the mere act of selling in the ordinary course of business.

B. The decision below puts at risk every national retail chain (like Drug Emporium), as well as small merchants "who may be found" somewhere in the territory of the Ninth Circuit. 28 U.S.C. § 1400(a) (copyright venue). Such retailers may no longer rely on the good-faith purchaser defense when stocking imported goods. *See* U.C.C. §§ 2-102, 2-403. Normally, this defense "allows people safely to engage in the purchase and sale of goods without conducting a costly investigation of the conduct and rights of all previous predecessors in the chain of distribution." *Johnson & Johnson Prod. v. Dal Int'l Trading Co.*, 798 F.2d 100, 104 (3d Cir. 1986) (retailer not liable for selling imported gray-market goods that others fraudulently procured).

If retailers are now to be held liable, their innocence with respect to the circumstances of importation will likely be irrelevant. *Pinkham v. Sara Lee Corp.*, 983 F.2d

824, 829 (8th Cir. 1992) (liability for copyright infringement is "absolute. The defendant's intent is simply not relevant"). Retailers may have to inquire about the circumstances of importation, the identity of the importer, and perhaps the specific terms of the instrument conferring authority. Inevitably, the Ninth Circuit's rule will create costs for retailers and consumers, multiply lawsuits for copyright infringement against innocent merchants, and impede the free movement of imported goods with copyrighted labels or other features.

The liability of non-importing retailers under a statute that specifically prohibits only "importation" is an important federal question with serious legal and commercial ramifications. It, too, requires a uniform, nationwide rule.

CONCLUSION

For the foregoing reasons, this Court should grant the petition and issue a writ of certiorari to the United States Court of Appeals for the Ninth Circuit.

Respectfully submitted,

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APPENDIX

PARFUMS GIVENCHY, INC., *Plaintiff-Appellee,*
v.
DRUG EMPORIUM, INC., *Defendant-Appellant.*
Nos. 92-56359, 93-55050.
United States Court of Appeals,
Ninth Circuit.
Argued and Submitted Feb. 3, 1994.
Decided Oct. 21, 1994.

Perfume distributor brought action against retailer, alleging copyright infringement based on sales of perfume in original copyrighted packaging. The United States District Court for the Central District of California, Mariana R. Pfaelzer, J., granted summary judgment for distributor, and retailer appealed. The Court of Appeals, Pregerson, Circuit Judge, held that: (1) distributor had standing to bring infringement claim; (2) "first sale" doctrine, precluding liability for distribution of copies of work which has been lawfully sold, did not apply where alleged first sale occurred outside United States; and (3) fact that distributor was wholly owned subsidiary of foreign manufacturer did not affect copyright protection.

Affirmed.

John Borgo and R. Lawrence Bonner, Greer, Homer & Bonner, Miami, FL, for defendant-appellant.

Curtis A. Bradley, Covington & Burling, Washington, DC, for plaintiff-appellee.

Stephen Kurzman, Nixon, Hargrave, Devans & Doyle, Washington, DC, for American Free Trade Ass'n, as amicus curiae.

Diane Heiman, Bethesda, MD, for Nat. Consumers League, as amicus curiae.

Appeal from the United States District Court for the Central District of California.

Before: TANG, PREGERSON and NOONAN, Circuit Judges.

PREGERSON, Circuit Judge:

I. INTRODUCTION

Drug Emporium, Inc. appeals a permanent injunction granted by the district court on summary judgment in Parfums Givenchy, Inc.'s ("Givenchy USA's") action for copyright infringement under 17 U.S.C. § 602(a). Givenchy USA owns the United States copyright to the box design of Amarige perfume. Givenchy USA brought the instant action after its representatives purchased a bottle of Amarige perfume, in the original copyrighted packaging, from a discount retail store owned by Drug Emporium. The permanent injunction restrains Drug Emporium from continuing to sell or market the copyrighted Amarige box design in the United States. We have jurisdiction over the appeal under 28 U.S.C. § 1291. We affirm.

II. FACTS

The facts are not in dispute. This case concerns the importation and sale of Amarige, a perfume that is produced in France by Parfums Givenchy, S.A. ("Givenchy France"). Amarige is marketed in distinctively decorated individual boxes designed by employees of Givenchy

France. Givenchy France began importing Amarige to the United States in early 1992, and shortly thereafter sold its United States copyright interests in the Amarige box design to appellee, Givenchy USA, its wholly owned subsidiary. Givenchy USA then recorded the box design with the United States Copyright office, obtained a valid registration certificate, and began a multi-million dollar national advertising campaign to promote the perfume.

Meanwhile, third parties purchased or otherwise lawfully obtained quantities of Amarige abroad. The Amarige was packaged in the original distinctively designed box. The third parties then imported the Amarige into the United States without the authorization of either Givenchy France or Givenchy USA. Some or all of the Amarige was imported into the United States before Givenchy France assigned its U.S. copyright interests in the Amarige box design to Givenchy USA. Drug Emporium, a nationwide retail chain, purchased the Amarige from the importing third parties in the United States, and began marketing the perfume in the United States in its original copyrighted packaging. Drug Emporium made all of its purchases of Amarige *after* Givenchy USA became the registered U.S. copyright owner of the box design.

III. DISCUSSION

We review a grant of summary judgment de novo. *Smith v. Noonan*, 992 F.2d 987, 989 (9th Cir.1993). We must determine whether, viewing the evidence in the light most favorable to the non-moving party, there are any genuine issues of material fact, and whether the district

court correctly applied the relevant substantive law. *Botefur v. City of Eagle Point*, 7 F.3d 152, 154 (9th Cir.1993).

Drug Emporium raises two primary issues on appeal: (1) It challenges the district court's determination that Givenchy USA had standing to sue for the alleged copyright infringements; and (2) It challenges the district court's determination that the "first sale" doctrine does not apply to shield Drug Emporium from liability for copyright infringement.

A. Standing:

Section 501 ~~of~~ the Copyright Revision Act of 1976, Pub.L. 94-553, 17 U.S.C. §§ 101-914 (the "Copyright Act") provides that "[t]he legal or beneficial owner of an exclusive right under a copyright is entitled . . . to institute an action for any infringement . . . committed *while he or she is the owner* of it." 17 U.S.C. § 501(b). The district court found that Givenchy USA had standing to sue under the Copyright Act because it owned the United States copyright to the box design when the infringement occurred.[1]

Drug Emporium contends that there is a genuine issue of fact whether Givenchy USA owned the copyright

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[1] The district court additionally found that Givenchy USA had standing to sue because it was the assignee of Givenchy France. Because we find that Givenchy USA had standing based on its ownership of the copyright at the time the violation occurred, we do not address the question whether it also had standing as an assignee of Givenchy France.

to the box design at the time of the alleged infringement. Drug Emporium points out that the third party wholesaler from whom it obtained its supply of Amarige purchased a large quantity of the product abroad *before* Givenchy France sold its U.S. copyright interest in Amarige to Givenchy USA. But Drug Emporium's alleged copyright infringement did not occur when the Amarige was *imported*. Rather, it occurred when Drug Emporium *attempted to distribute* the perfume that had been imported without Givenchy USA's (or Givenchy France's) authorization.[2]

It is undisputed that Givenchy USA was the United States copyright owner when Drug Emporium marketed and sold the Amarige in its copyrighted package. Therefore, Givenchy USA had standing to sue under the Copyright Act.

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[2] Drug Emporium argues in its reply brief that if the alleged infringement occurred when it *distributed* Amarige, rather than when the Amarige was *imported*, then the violations necessarily arose under § 106(3) (which protects distribution of copyrighted goods), rather than under § 602(a) (which protects importation of copyrighted goods). This distinction is irrelevant to the standing question. The Copyright Act protects copyright owners against both unauthorized importation *and* subsequent unauthorized distribution of copies of copyrighted materials. *See BMG Music v. Perez*, 952 F.2d 318, 320 (9th Cir.1991) (affirming district court holding that defendant infringed plaintiffs' copyright by importing *and selling* plaintiffs' copyrighted material manufactured abroad).

B. Does the "first sale" doctrine protect Drug Emporium?

1. Harmonizing first sale doctrine and importation right:

The owner of a registered copyright has the "exclusive rights" to *authorize or distribute* copies of the copyrighted work to the public. 17 U.S.C. § 106(3).[3] However, under the "first sale" doctrine, embodied in § 109(a) of the Copyright Act, 17 U.S.C. § 109(a), a sale of a "lawfully made" copy terminates the copyright holder's authority to interfere with subsequent sales or distribution of that particular copy.[4] Section 109(a) thus provides a defense to liability under § 106(3) for lawful purchasers of copies of copyrighted materials, so long as the copies were "lawfully made under this title." Drug Emporium contends on appeal that this section protects it from § 602 liability for copyright infringement.

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[3] 17 U.S.C. § 106 provides:
Subject to sections 107 through 120, the owner of [a] copyright under this title has the exclusive rights to do and to authorize any of the following:

* * *

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership or by rental, lease or lending.

[4] 17 U.S.C. § 109(a) entitled, "Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord," provides:
Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

Whether Drug Emporium may rely on the first sale doctrine depends on the relationship between this doctrine and the "importation right" codified at 17 U.S.C. § 602(a). Section 602(a) provides that unauthorized *importation of foreign* purchased copies of U.S. copyrighted materials is an infringement of the distribution rights provided in § 106.[5] There are at least two plausible interpretations of the interaction of the importation right and the first sale doctrine as embodied in §§ 602(a) and 109(a). Drug Emporium contends that § 109(a) supersedes § 602(a). In its view, a lawful sale *abroad* of U.S. copyrighted foreign goods would terminate the exclusive right of the U.S. copyright holder to import and distribute those goods in the United States, in the same way that a lawful domestic sale terminates the exclusive distribution rights of domestically manufactured materials. Thus, Drug Emporium argues, Givenchy USA may not interfere with the U.S. distribution of Amarige, lawfully obtained abroad, even though it owns the U.S. copyright to the Amarige box design, and even though the perfume was imported into the United States in the original box without Givenchy USA's authorization.[6] In contrast, Givenchy

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[5] 17 U.S.C. § 602(a) provides that:
Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106.

[6] The logical outcome of a ruling that the U.S. copyright owner is precluded from interfering with U.S. distribution of copies manufactured and lawfully sold abroad would be to deprive U.S. copyright holders of the power to authorize or prevent imports of the copies once the copies are sold abroad by

USA contends, and we agree, that the importation right survives as to a particular copy unless and until there has been a "first sale" *in the United States.*

Prior to the 1976 amendments to the Copyright Act, the unauthorized importation of non-pirated copyrighted articles was not prohibited. See Act of Mar. 4, 1909, ch. 320, § 30, 35 Stat. 1075, 1082 (1909). Section 602(a) was enacted in order to provide greater remedies for U.S. copyright owners, and "makes the mere act of importation – regardless of sale – an infringement of Section 106(3)'s distribution right, and prohibits unauthorized importation, not only of pirated copies, but also of copies that were lawfully made." *See Parfums Givenchy v. C & C Beauty Sales,* 832 F.Supp. 1378, 1390 (C.D.Cal.1993). As the district court in *C & C Beauty Sales* recognized, § 602(a) in effect gives § 106(3) an extraterritorial scope. *Id.* This section ensures that a U.S. copyright owner will gain the full value of each copy sold in the United States, by preventing the unauthorized importation of copies sold abroad from being used as a means of circumventing the copyright owner's distribution rights in the United States. *Id.* at 1390-91.

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the manufacturer. We acknowledge that serious policy considerations weigh on both sides of this debate, because of implications for the so-called "gray market" of imported goods. "Gray-market" goods, or "parallel imports," are genuine products possessing a brand name protected by a trademark or copyright. They are typically manufactured abroad, and purchased and imported into the United States by third parties, thereby bypassing the authorized U.S. distribution channels. *See K Mart v. Cartier,* 486 U.S. 281, 286-287, 108 S.Ct. 1811, 1815-1816, 100 L.Ed.2d 313 (1987).

We examined this precise issue in *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir.1991), *cert. denied*, ___ U.S. ___, 112 S.Ct. 2997, 120 L.Ed.2d 873 (1992). In that case the defendant was an entrepreneur who purchased copyrighted sound recordings manufactured abroad, imported them to the United States, and sold them here in retail outlets. The defendant in *BMG Music*, like Drug Emporium in this case, claimed that the first sale doctrine of § 109(a) protected him from liability even though he purchased the copyrighted recordings abroad and imported them without plaintiff copyright holder's authorization. We disagreed, holding that "[t]he words 'lawfully made under this title' in § 109(a) grant first sale protection only to copies legally made and sold in the United States." *Id.* at 319 (citing *CBS v. Scorpio Music Distributors*, 569 F.Supp. 47 (E.D.Pa.1983), *aff'd without op.*, 738 F.2d 424 (3rd Cir.1984)). We explained that such a rule is necessary to avoid rendering § 602 "virtually meaningless." *Id.* Without the rule, "[c]opyright owners would no longer have an exclusive right to distribute copies or phonorecords of works manufactured abroad, an interest clearly protected by § 602." *Id.* In essence, in *BMG Music* there was no first sale because the defendant purchased the copyrighted material *abroad*. Therefore, we concluded, the defendant importer did indeed infringe on the U.S. copyright when he imported and sold the phonorecords without the authorization of the U.S. copyright holder. *Id.*[7] The material facts of this case are nearly identical to those in *BMG Music*.

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[7] In *Sebastian Intern. v. Consumer Contacts (PTY)*, 847 F.2d 1093, 1098-99 (3rd Cir.1988), the Third Circuit held that the first sale doctrine of § 109(a) superseded the import right of § 602(a) where a domestic manufacturer first exported its materials and then attempted to invoke the copyright laws to enjoin a third

Drug Emporium amicus urges us to overrule *BMG Music*. It argues that the plain meaning, legislative history, interpretive case law, and policy considerations framing the statutes in question, all suggest that *BMG Music* was wrongly decided. Whether or not we agree with their arguments, *BMG Music* is binding authority in the 9th Circuit that can only be overturned through an en banc hearing. *U.S. v. Mandel*, 914 F.2d 1215, 1220-21 (9th Cir.1990); *see* 9th Cir.R. 35(1)-35(3) (providing procedures for en banc review).[8]

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party from importing the copyrighted goods. In *BMG Music* we explicitly declined to speculate about how we would decide the facts in *Sebastian*. We again decline to do so.

[8] We note, however, that the strongest argument against applying *BMG Music* is that some of its language, applied literally to circumstances not before us in *BMG Music*, would lead to absurd and unintended results. *BMG Music* need not be overturned to avoid those undesirable results.

In *BMG Music*, we stated: "The words 'lawfully made under this title' in § 109(a) grant first sale protection only to copies legally made and sold in the United States." 952 F.2d at 319. Amici and some courts have pointed out that this broad language, if taken literally, would render the first sale doctrine wholly inapplicable to foreign manufactured goods, even after the goods have been lawfully imported into the United States with the authorization of the U.S. copyright holder. *See, e.g., Parfums Givenchy v. C & C Beauty Sales*, 832 F.Supp. 1378, 1386 (C.D.Cal.1993) (citing 1 Paul Goldstein, Copyright § 5.6.1, at 604). This would mean that foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States because the copyright holder would retain control over the distribution of the foreign manufactured copies even after the copies have been lawfully sold in the United States. We agree that such a result would be untenable, and that nothing in the legislative history or text of § 602 supports such an interpretation. *See* H.Rep. No. 94-1476, 94th Cong., 2nd Sess.

Alternatively, Drug Emporium asks us to distinguish *BMG Music*. The reply brief notes that Drug Emporium was not the importer of Amarige, as was the defendant in BMG Music; rather, Drug Emporium purchased its Amarige from a wholesaler here in the United States. *See* discussion *supra*, pp. ___-___, regarding standing. This is not a material distinction because the purchaser of illegally imported copies has no more authority to distribute copies than does the original importer. *See* H.R.Rep. No. 1476, at 79, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693 ("any resale of an illegally pirated phonorecord would be an infringement"). Drug Emporium therefore had no more authority to distribute the copyrighted Amarige box design than did the original importer. Nothing had happened to divest Givenchy USA of its "exclusive rights." 17 U.S.C. § 106 ("the owner of copyright . . . has the exclusive rights" to authorize distribution of copies).

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170 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5786 ("any unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them. . . . " (Emphasis added.)).

Our reliance on *BMG Music* today should not be read as an endorsement of any such broad extension of that case beyond its facts. Those facts did not include any attempt to preclude the sale of copies of foreign manufactured goods that had been lawfully obtained *in the U.S.* from the U.S. copyright holder. We merely follow *BMG Music* in holding that sales *abroad* of foreign manufactured United States copyrighted materials do not terminate the United States copyright holder's exclusive distribution rights in the United States under §§ 106 and 602(a).

2. Relevance of Givenchy USA's status as a subsidiary of Givenchy France:

In its better argument, Drug Emporium asks us to distinguish *BMG Music* because in the case before us the U.S. copyright owner, Givenchy USA, is the wholly owned subsidiary of the foreign manufacturer of Amarige, Givenchy France. There is nothing in the plain language of § 602, its legislative history, or case law that suggests that subsidiaries of foreign manufacturers should be treated any differently from other U.S. copyright holders.[9] Nevertheless, Drug Emporium asks us to

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[9] Amicus Coalition for Competitive Imports makes an intriguing, though ultimately futile, argument for the related proposition that case law distinguishes between a sale by the copyright owner *itself*, which is a defense against copyright infringement, and a sale by *licensees*, which might not be a defense. The Amicus argues that *BMG Music* may be distinguished from the case at bar on this ground.

Case law, though ambiguous, does not squarely hold that there is a dichotomy between sales by the copyright holder itself and by its licensees. *See United States v. Atherton*, 561 F.2d 747, 751 (9th Cir.1977) (rejecting any distinction between sales by owners and by licensees in the context of a criminal prosecution for copyright infringement). *But cf. Platt & Munk v. Republic Graphics*, 315 F.2d 847, 854 (2nd Cir.1963) (Friendly, J.) (some transfers of title of particular copies do not qualify as first sales; test for whether a first sale has occurred is whether the copyright holder has received a just reward for the use of the copyrighted article).

The second problem with the amicus argument is that it fails to distinguish between imports and domestic goods. The rationale of *BMG Music*, by which we are bound, is that sales *abroad* do not constitute a defense to copyright infringement under § 602(a). Under *BMG Music*, the relationship between the copyright holder and the seller abroad is irrelevant.

analogize from trademark cases interpreting § 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, and §§ 32 and 43 of the Lanham Trademark Act, 15 U.S.C. §§ 1114 & 1125. As explained below, the cases cited by Drug Emporium hold that wholly owned U.S. subsidiaries of foreign manufacturers cannot invoke *tariff* or *trademark* protections to prevent third parties from importing goods manufactured by the parent company. *See, e.g., K Mart v. Cartier*, 486 U.S. 281, 294, 108 S.Ct. 1811, 1819, 100 L.Ed.2d 313 (1988) (wholly owned subsidiary of foreign manufacturer cannot invoke § 526 of the *Tariff Act* of 1930, 19 U.S.C. § 1526, to prevent third parties from competing in the domestic market by buying the foreign parent company's trademarked goods abroad and importing them here); *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir.) (wholly owned subsidiary of foreign manufacturer could not invoke §§ 32 and 43 of the *Lanham Trademark Act*, 15 U.S.C. §§ 1114 & 1125, to prevent third party from importing parent company's product), *cert denied*, 484 U.S. 851, 108 S.Ct. 152, 98 L.Ed.2d 108 (1987).

Finally, amicus attempts to buttress its argument by reference to the legislative history of the Computer Software Rental Amendments Act of 1990, Pub.L. 101-650 § 803, 104 Stat. 5089. *See* H.R.Rep. No. 101-735, 101st Cong., 2d Sess. 9, *reprinted in* 1990 U.S.C.C.A.N. 6935, 6940. But the provision cited by amicus, 17 U.S.C. § 109(e), is not relevant here. That provision was designed to overrule *Red Baron-Franklin Park v. Taito Corp.*, 883 F.2d 275 (4th Cir.1989), *cert. denied*, 493 U.S. 1058, 110 S.Ct. 869, 107 L.Ed.2d 952 (1990), which held that the first sale doctrine does not apply to the public performance right under § 106(4). Nothing suggests that Congress intended to comment on or change the scope of § 602(a) when it passed § 109(a).

The problem with Drug Emporium's suggested analogy is that the Copyright Act has a purpose, scope, and statutory scheme different from either the Tariff or Lanham Trademark Acts. As a result, as explained below, the reasoning of the cases cited by Drug Emporium is inapplicable to the sections of the Copyright Act at issue in the case before us.

a. The Tariff Act

Section 526(a) of the Tariff Act of 1930 prohibits the unauthorized importation of foreign-made merchandise bearing a registered trademark owned by a United States corporation. 19 U.S.C. § 1526(a).[10] In *K Mart*, the Supreme Court addressed the question whether a wholly owned United States subsidiary of a foreign manufacturer could invoke the protections of the § 526 of Tariff Act to prevent competition from third parties who imported the products manufactured by the parent company. The Supreme Court held that wholly owned subsidiaries could *not* invoke § 526 of the Tariff Act. There were two reasons for this determination, neither of which helps Drug Emporium.

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[10] Section 526(a) provides in relevant part:
[I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the [applicable] provisions unless written consent of the owner of such trademark is produced at the time of making entry.

First, the Court deferred to a U.S. Customs Service regulation that interpreted ambiguous statutory language that limited Tariff Act § 526's benefits to merchandise bearing a trademark "owned by" a United States citizen or company. This rationale does not help Drug Emporium because Copyright Act § 602 is not restricted by its terms to United States citizens or companies.

Second, the Court relied on the purpose of Tariff Act § 526, which is to protect domestic companies against foreign competition, *see K Mart*, 486 U.S. at 297, 108 S.Ct. at 1820-21 (Brennan J., concurring) (the structure of § 526 "bespeaks an intent, characteristic of the times, to protect only domestic interests"). To allow wholly owned subsidiaries of foreign companies to invoke § 526 would allow the foreign parent company to enjoy the competitive benefits that Congress intended to accrue only to domestic companies. The Tariff Act protections "are fragile barriers indeed if a foreign manufacturer might bypass them by the simple device of incorporating a shell domestic subsidiary and transferring to it a single asset – the United States trademark." *Id.* This second rationale is also inapplicable to the Copyright Act. The import restrictions of Copyright Act § 602 were intended to protect U.S. copyright holders from pirated articles as well as gray market copies,[11] not to give preferential treatment to domestic companies over foreign companies. *See* Copyright Act House Report, at 5785 ("Section 602 . . . deals with two separate situations: importation of 'piratical' articles . . . and unauthorized importation of copies . . . that were lawfully made"). In marked contrast to

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[11] *See* fn. 6, *supra* for a definition of gray market goods.

the Tariff import restrictions, which only protect domestic companies, the copyright laws are also available to protect foreign beneficial owners of U.S. copyrights, regardless of nationality. *See* 17 U.S.C. § 104(b) (foreign author may claim U.S. copyright if domiciliary or national of Berne Convention, Universal Copyright Convention ("U.C.C."), or other treaty nation, or if the work was first published in the U.S. or in a Berne, U.C.C. or other treaty nation); *see also* 5 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 5.05[D] (1993) (author who is a citizen or alien eligible to claim copyright may assign copyright to ineligible alien, who as assignee may fully enforce the copyright). In fact, as Givenchy USA points out, Givenchy France would have been eligible to assert U.S. copyright protection for the Amarige box design for *itself* had it not assigned its U.S. copyright interest to Givenchy USA. Givenchy France therefore had no need to resort to a "shell" United States subsidiary to enjoy United States copyright protection.

b. The Lanham Trademark Act

The purpose of the Lanham Trademark Act, Pub.L. 87-772, 15 U.S.C. §§ 1051-1127 (the "Lanham Act"), is to prevent consumer confusion or deception about the origin or make of a product. *NEC Electronics*, 810 F.2d at 1509. There is no statutory equivalent in the Lanham Act to § 602(a) of the Copyright Act. But since *Bourjois v. Katzel*, 260 U.S. 689, 43 S.Ct. 244, 67 L.Ed. 464 (1923), the courts have interpreted §§ 32 & 43(a), 15 U.S.C. §§ 1114 & 1125(a), in a manner that protects U.S. trademark owners

from competition from goods manufactured and purchased abroad and imported without the consent of the U.S. trademark owner. *NEC Electronics*, 810 F.2d at 1510.[12] This *Katzel* import protection is functionally equivalent to the Copyright Act's § 602, in that it allows U.S. companies to sue third parties that attempt to import lawfully obtained foreign manufactured goods without the authorization of the U.S. registered trademark owner.

The rationale behind the judicially created import protection described in *Katzel* is twofold: (1) it preserves the benefit of the bargain for United States companies that purchase domestic trademarks from foreign manufacturers, by preventing the foreign manufacturers from "evading the purpose of the transfer" by selling to third parties for import into the United States, *Katzel*, 260 U.S. at 691, 43 S.Ct. at 245; and (2) it preserves the integrity of the U.S. mark by preventing the "importation of foreign. purchased goods whose quality and contents were beyond [the U.S. trademark owner's] control." *NEC Electronics*, 810 F.2d at 1509. Each of these rationales "presuppose[s] the American owner's real independence from the foreign manufacturer." *Id.* Such independence is absent where the U.S. company asserting the right to sue third

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[12] Section 32 of the Lanham Act, 15 U.S.C. § 1114 provides registered trademark owners with a right of action against unauthorized use of the likeness of a mark in a manner "likely to cause confusion or to cause mistake or to deceive."
Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), provides for civil liability for marketing goods bearing "a false designation of origin."

party importers under *Katzel* is the wholly owned subsidiary of the foreign manufacturer. We have therefore created an exception to Katzel where there is a parent-subsidiary relationship between the U.S. trademark owner attempting to avoid competition from third party importers and the foreign manufacturer. *Id.* at 1510. It is this exception that Drug Emporium would have us apply to § 602 of the Copyright Act.

But the rationale for the parent-subsidiary exception to the import protection of the Lanham Act is inapplicable to copyright law. There is no indication that § 602 of the Copyright Act was particularly intended to give domestic copyright holders the benefit of their bargains with foreign manufacturers, nor that it was intended to protect U.S. copyright holders' control over the quality and contents of the copyrighted goods. In fact, the independence of the U.S. copyright holder from the foreign manufacturer is irrelevant to the concern underlying § 602 of the Copyright Act, which, as discussed above, is intended to give U.S. copyright holders protection against pirated and gray market imports.

In sum, nothing in the Copyright Act, the Lanham Act, or the Tariff Act, suggests that we should create an exception to the importation right granted to U.S. copyright holders by § 602(a) for U.S. subsidiaries of foreign manufacturers.

AFFIRMED.

PARFUMS GIVENCHY, INC.

v.

DRUG EMPORIUM, INC.

No. CV-92-4206 MRP.
United States District Court, C.D. California.
Nov. 23, 1992.

PFAELZER, District Judge:

The motion of plaintiff Parfums Givenchy, Inc. for Summary Judgment came on for hearing before this Court on November 16, 1992. After considering the parties' papers, arguments of counsel and all other matters presented to the Court, the Court determines that the following Uncontroverted Facts and Conclusions of Law have been established.

UNCONTROVERTED FACTS

1. Givenchy USA is a corporation organized under the laws of the State of New York, and has its principal place of business at 717 Fifth Avenue, New York, New York 10022. Verified Complaint ("Ver.Comp.") ¶ 3; Declaration of Robert L. Brady ("Brady Decl.") ¶ 2.

2. Givenchy USA is wholly owned by Parfums Givenchy, S.A. ("Givenchy France"), as corporation organized under the laws of France. Ver.Compl. ¶ 3; Brady Decl. ¶ 2.

3. Givenchy USA is the exclusive authorized distributor in the United States of perfume and other scented products manufactured by Givenchy France. Ver.Comp. ¶ 5; Brady Decl. ¶ 3.

4. Givenchy USA is the only party authorized to import the perfume products referred to in Paragraph 3 into the United States for consumption in this country. Brady Decl. ¶ 3.

5. Givenchy France manufactures in France a perfume that is marketed under the name "Amarige." Ver.Comp. ¶ 6; Brady Decl. ¶ 4; *see also* Affidavit of Kathleen Covault, Merchandise Manager Cosmetics and Fashion Merchandise of Drug Emporium, Inc. submitted by Drug Emporium, Inc. in opposition to Givenchy USA's motion for a preliminary injunction ("Covault Aff."), at ¶ 4.

6. Each bottle of Amarige perfume is packaged in a box, the outside of which contains a two-dimensional artistic border design ("Amarige Box Design"). Ver.Comp. ¶ 6; Brady Decl. ¶ 4; *cf.* Covault Aff. ¶ 4.

7. The Amarige Box Design was created by employees of Givenchy France in 1991. Ver.Comp. ¶ 7; Brady Decl. ¶ 5.

8. On February 27, 1992, Givenchy France sold to Givenchy USA the exclusive United States rights to the copyright for the Amarige Box Design. Ver.Comp. ¶ 8; Brady Decl. ¶ 6.

9. The Amarige Box Design constitutes copyrightable subject matter under the laws of the United States. Ver.Comp. ¶ 9.

10. The United States copyright for the Amarige Box Design was duly and legally registered to Givenchy USA by the United States Copyright Office on March 24, 1992. Ver.Comp., ¶ 10; Brady Decl. ¶ 7.

11. During this past year, Givenchy USA has spent more than five million dollars advertising Amarige perfume nationwide and promoting its image as a high-quality, high-prestige luxury item. Brady Decl. ¶ 9.

12. The Amarige Box Design is prominently featured in the advertising referred to in Paragraph 11 and is an important part of the overall Amarige perfume product. Brady Decl. ¶¶ 10, 11.

13. Defendant Drug Emporium, Inc. ("Drug Emporium") is a corporation organized under the laws of Delaware, and has its principal place of business at 155 Hidden Ravines Drive, Powell, Ohio 43065. Covault Aff. ¶ 4.

14. Drug Emporium owns numerous retail drug stores throughout the United States and has been transacting business in this judicial district. Ver.Comp. ¶ 4.

15. Drug Emporium has been selling reproductions of the Amarige Box Design in this judicial district. Declaration of Reed G. Strobl ¶¶ 4-6.

16. Drug Emporium acquired the reproductions referred to in Paragraph 15 by purchasing them from a third-party importer. Ver.Comp. ¶ 13; Covault Aff. ¶ 5; Drug Emporium, Inc.'s Memorandum of Points and Authorities in Opposition to Plaintiff's Motion for Preliminary Injunction at 4.

17. The reproductions referred to in Paragraph 15 were purchased abroad and then imported into the United States without Givenchy USA's authorization. Brady Decl. ¶¶ 3, 13; *see also* Drug Emporium, Inc.'s

Memorandum of Points and Authorities in Opposition to Plaintiff's Motion for Preliminary Injunction at 4.

18. Drug Emporium's unauthorized sale of Amarige perfume in the United States threatens to cause Givenchy USA irreparable harm by diluting its exclusive market and undermining the image of the Amarige perfume product as a high-quality, high-prestige luxury item. Brady Decl. ¶ 14.

19. The activities referred to in Paragraphs 15 through 17 are without the consent or permission of Givenchy USA or any authorized agent of Givenchy USA. Ver.Comp. ¶ 14; Brady Decl. ¶ 13.

CONCLUSIONS OF LAW

1. This action arises under the Copyright Act of 1976, 17 U.S.C. § 101 *et seq.* This Court has jurisdiction over this action pursuant to 28 U.S.C. §§ 1331 and 1338.

2. Section 602(a) of the Copyright Act prohibits the "[i]mportation into the United States, without the authority of the owner of the copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106, actionable under section 501."

3. As the copyright holder at the time of a violation, plaintiff is entitled to sue on defendant's infringement. *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 944 F.2d 972, 980 (2d Cir.1991).

4. Plaintiff is the assignee of both the copyright to the box design on Amarige and the right to sue on claims

accrued on the copyright by the assignor. *SAPC, Inc. v. Lotus Development Corp.*, 921 F.2d 360, 363 (1st Cir.1990); *Custom Decor, Inc. v. Nautical Crafts, Inc.*, 502 F.Supp. 154, 156-57 (E.D.Pa.1980).

5. Defendant's sale in its retail outlets of Amarige perfume violated 602(a).

6. Defendant is liable as a party in the chain of distribution of the perfume. *CBS v. Scorpio Music Distributors, Inc.*, 569 F.Supp 47 (E.D.Pa.1983, *aff'd without op.*, 738 F.2d 424 (3d Cir.1984); *Stablisierungsfonds Fur Wein v. Kaiser Stuhl Wine Distribs. Pty. Ltd.*, 647 F.2d 200, 207 (D.C.Cir.1981).

7. Defendant's violation is not excused by the "first sale doctrine" of section 109(a) of the Copyright Act. *BMG Music v. Perez*, 952 F.2d 318 (9th Cir.1991).

8. After careful review, the Court enters summary judgment as a matter of law in favor of plaintiff.

9. Any Finding of Fact deemed to be a Conclusion of Law is hereby incorporated into these Conclusions of Law.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

PARFUMS GIVENCHY, INC., Plaintiff,	)	NO. CV-92 4206 MRP (CTx)
v.	)	JUDGMENT
DRUG EMPORIUM, INC., Defendant.	)	(Filed Nov. 23, 1992)

The above-captioned matter having come on for hearing before the Court on November 16, 1992, on Plaintiff's Motion for Summary Judgment on Liability and Equitable Relief, the Court having read and considered the papers filed in support of and in opposition to the Motion and having heard and considered the argument of counsel, and the Court having found that there is no genuine issue as to any material fact and that Plaintiff is entitled to judgment as a matter of law on issues of liability and equitable relief,

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED, AND DECREED:

That Plaintiff Parfums Givenchy, Inc.'s motion for summary judgment on issues of liability and entitlement to equitable relief be, and it hereby is, granted;

That Defendant Drug Emporium, Inc., its agents, employees, and any persons acting on behalf of, by, through or in concert with it or them, are hereby permanently enjoined from, directly or indirectly, importing, selling, advertising, marketing, or otherwise distributing

any reproductions of the Amarige Box Design in the United States; and

That Plaintiff Parfums Givenchy, Inc. be, and it hereby is, awarded its reasonable attorney's fees and costs incurred in this action, to be paid by Defendant Drug Emporium, Inc.

Dated: November 23, 1992

/s/ Mariana R. Pfaelzer
UNITED STATES DISTRICT JUDGE

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 106 provides:

> **Sec. 106. Exclusive rights in copyrighted works**
>
> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
>
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and
>
> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly

17 U.S.C. § 109(a) provides:

> **Sec. 109. Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord**
>
> (a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any

person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 501(b) provides:

Sec. 501. Infringement of copyright

* * *

(b) The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of section 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it. The court may require such owner to serve written notice of the action with a copy of the complaint upon any person shown, by the records of the Copyright Office or otherwise, to have or claim an interest in the copyright, and shall require that such notice be served upon any person whose interest is likely to be affected by a decision in the case. The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright.

17 U.S.C. § 602(a) provides:

Sec. 602. Infringing importation of copies or phonorecords

(a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right

to distribute copies or phonorecords under section 106, actionable under section 501. This subsection does not apply to –

(1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;

(2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or

(3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).

BMG MUSIC; CBS, Inc.; A & M Records, Inc.,
Plaintiffs-Appellees,
v.
Edmundo PEREZ, individually and dba
La Feria del Disco and La Feria del Disco No. 1,
Defendants-Appellants.

No. 89-56318.
United States Court of Appeals,
Ninth Circuit.
Argued and Submitted Sept. 11, 1991.
Decided Dec. 24, 1991.

Owners of copyrights in sound recordings brought copyright infringement action against individual who, together with his wholly owned corporations, allegedly purchased plaintiffs' copyrighted sound recordings manufactured abroad, exported them to United States and sold them. The United States District Court for the Central District of California, Richard A. Gadbois, Jr., J., rendered judgment for plaintiffs and defendant appealed. The Court of Appeals, Beezer, Circuit Judge, held that: (1) defendant was not protected by the "first sale doctrine"; (2) sufficient evidence supported finding of willful infringement; and (3) district court did not abuse its discretion in awarding statutory damages or in imposing sanctions for contempt.

Affirmed.

Speros P. Maniates, Huntington Park, Cal., for defendants-appellants.

Russell J. Frackman, Mitchell, Silberberg & Knupp, Los Angeles, Cal., for plaintiffs-appellees.

Appeal from the United States District Court for the Central District of California.

Before BEEZER, HALL and WIGGINS, Circuit Judges.

BEEZER, Circuit Judge:

BMG Music, CBS Inc. and A & M Records, Inc. ("plaintiffs") brought a copyright infringement action against Edmundo Perez and his wholly owned corporations, La Feria del Disco and La Feria del Disco No. 1 ("Perez"). The district court entered judgment for the plaintiffs and Perez appeals. We have jurisdiction pursuant to 28 U.S.C. Sec. 1291 and affirm.

I

Plaintiffs produce, manufacture, distribute and sell phonorecords in the United States and own copyright in the various sound recordings embodied in those phonorecords. Plaintiffs brought suit against Perez alleging that Perez purchased plaintiffs' copyrighted sound recordings manufactured abroad, exported them to the United States and sold them in violation of the Copyright Act.

The district court entered a preliminary injunction enjoining Perez from importing or selling any of the plaintiffs' works. While the injunction was in force, Perez sold plaintiffs' copyrighted works manufactured abroad without plaintiffs' authorization. The district court found Perez in contempt and ordered that Perez pay sanctions to the plaintiffs. Subsequently, after a bench trial, the

district court found that Perez wilfully infringed plaintiffs' copyright and awarded statutory damages and attorney's fees.

II

Perez first contends that the district court erred in holding that Perez infringed plaintiffs' copyright by importing and selling plaintiffs' copyrighted material manufactured abroad. Perez contends that he is protected by the "first sale doctrine."

17 U.S.C. Sec. 602(a) prohibits the importation, without the copyright owner's permission, of copies acquired outside the United States.[1] 17 U.S.C. Sec. 109(a) prevents a copyright owner who has sold copies from interfering with the later sale of those copies if "lawfully made under this title."[2] The first sale doctrine in 17 U.S.C. Sec.

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[1] That section reads:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. . . .

17 U.S.C. Sec. 602(a) (1988).

[2] That section reads:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. Sec. 109(a) (1988).

109(a) does not, however, provide a defense to infringement under 17 U.S.C. Sec. 602 for goods manufactured abroad. The words "lawfully made under this title" in Sec. 109(a) grant first sale protection only to copies legally made and sold in the United States. *See CBS v. Scorpio Music Distributors*, 569 F.Supp. 47 (E.D.Pa.1983), *aff'd without op.*, 738 F.2d 424 (3d Cir.1984).

In *Scorpio*, the defendant imported phonorecords of works manufactured in the Philippines to which the plaintiff owned copyright. The court, in finding for the plaintiff, reasoned that "[c]onstruing 109(a) as superseding the prohibition on importation set forth in . . . Sec. 602 would render Sec. 602 virtually meaningless." *Id.* at 49. Copyright owners would no longer have an exclusive right to distribute copies or phonorecords of works manufactured abroad, an interest clearly protected by Sec. 602. *Scorpio*'s concern over the possibility of rendering meaningless Sec. 602 is justified and, for that reason, so is its result.[3] *See* 2 M. Nimmer & D. Nimmer, Nimmer on Copyright Sec. 8.12[B], at 8-143 (1991) ("[The conclusion in *Scorpio*] remains closest to the legislative intent underlying what is admittedly a difficult statutory juxtaposition.").

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[3] In *Sebastian Intern., Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098-99 (3d Cir.1988), the court held that the first sale defense superseded 602(a). That case, however, involved the exportation and later importation of copyrighted goods originally manufactured and sold in the United States. Because those facts are not before us in this case, we specifically decline to pass upon them here.

Perez next contends that his infringement was de minimis and that Sec. 602(a) should apply only to "wholesale" importation of copies. Because Perez imported multiple copies for commercial resale, exactly the behavior proscribed by the statute, Perez's argument is without merit.

Perez also contends that the unavailability of the works in the United States provides him with a first amendment defense to liability for copyright infringement. Because this is not one of those "rare instances when first amendment considerations will operate to limit copyright protection for graphic expressions of newsworthy events," *Sid & Marty Krofft Television v. McDonald's Corp.*, 562 F.2d 1157, 1171 (9th Cir.1977), this argument also is without merit. *See also Walt Disney Prods. v. Air Pirates*, 581 F.2d 751, 758 (9th Cir.1978), *cert. denied sub nom. O'Neill v. Walt Disney Prods.*, 439 U.S. 1132, 99 S.Ct. 1054, 59 L.Ed.2d 94 (1979).

III

Perez next contends that there was insufficient evidence to support a finding of wilful infringement. We disagree. Defendant's admissions at trial and conduct in violating the court's preliminary injunction are clear from our review of the record. The court's wilfulness finding is amply supported.

IV

Perez next argues that the district court abused its discretion in awarding statutory damages. Under 17 U.S.C. Sec. 504(c), the court may award damages of $250

to $10,000. *Id.* If the infringement is wilful, the court may award damages up to $50,000. *Id.* The court has "wide discretion" in setting the amount of damages within the statutory range. *Harris v. Emus Records,* 734 F.2d 1329, 1335 (9th Cir.1984).

In this case, the district court awarded damages in the amount of $15,000 for each infringement. Perez has not shown that the district court abused its discretion in setting the amount of statutory damages. In addition, Perez has not shown that the court erred in awarding plaintiffs their attorney's fees under 17 U.S.C. Sec. 505. *See McCulloch v. Albert E. Price, Inc.,* 823 F.2d 316, 323 (9th Cir.1987) (attorney's fees generally awarded to prevailing plaintiff in copyright cases).

V

Perez next challenges the district court's contempt order. Perez argues that the preliminary injunction did not prohibit the sale of the recordings for which the district court ordered sanctions. Perez also argues that he had no notice of the recordings subject to the injunction. Because the injunction clearly prohibited the sale of the recordings for which Perez was sanctioned, Perez's argument is without merit.

Perez next contends that the district court erred in relying on affidavits rather than on oral testimony in finding Perez in contempt. Because Perez failed to object at the contempt hearing, the district court did not err in relying on affidavits. *Locklin v. Switzer Brothers, Inc.,* 348 F.2d 244, 245 (9th Cir.1965).

Perez also contends that the district court erred by imposing an excessive sanction for contempt. We review for abuse of discretion. *See Gifford v. Heckler*, 741 F.2d 263, 266 (9th Cir.1984). Because the district court imposed a sanction of $10,000 for each violation of the preliminary injunction, an amount no greater than statutory damages for the resulting copyright infringement, the district court did not abuse its discretion in setting the amount of sanctions.

VI

Appellees are entitled an award of costs and attorney's fees pursuant to 17 U.S.C. Sec. 505. Fees will be fixed by separate order. Cir.R. 39-1.6.

The judgment of the district court is AFFIRMED.

SEBASTIAN INTERNATIONAL, INC.
v.
CONSUMER CONTACTS (PTY) LTD., d/b/a 3-D Marketing Services, Hiltexan Ltd., Fabric Limited, Quality King Manufacturing, Inc. and Quality King Distributors, Inc.
Appeal of HILTEXAN LTD. and Fabric Limited.

No. 87-5439.
United States Court of Appeals,
Third Circuit.
Argued Jan. 19, 1988.
Decided May 25, 1988.

Manufacturer of hair care products with copyrighted labels brought copyright infringement action against foreign purchaser of products who reshipped products to United States for resale. The United States District Court for the District of New Jersey, Maryanne Trump Barry, J., 664 F.Supp. 909, granted manufacturer preliminary injunction, and appeal was taken. The Court of Appeals, Weis, Circuit Judge, held that hair care product manufacturer which sold its goods with copyrighted labels to foreign distributor was barred by first sale doctrine from establishing infringement of copyright by unauthorized importation of goods back into United States.

Vacated and remanded.

Ina B. Lewisohn (argued), Melvin Greenberg, Steven D. Scharfetter, Greenberg, Dauber & Epstein, Newark, N.J., for appellants Fabric Limited and Hiltexan Ltd.

Robert A. Weiner (argued), David B. Wechsler, Berger & Steingut, New York City, Shanley & Fisher, Morristown, N.J., for appellee Sebastian Intern., Inc.

Weil, Gotshal & Manges, New York City (R. Bruce Rich, Stuart D. Levi, of counsel), Thomas J. Donegan, Jr., Marsha W. Gardner, The Cosmetic, Toiletry and Fragrance Ass'n, Inc., Washington, D.C., for amicus curiae The Cosmetic, Toiletry and Fragrance Ass'n, Inc.

John B. McCrory, Nixon, Hargrave, Devans & Doyle, Washington, D.C., for amicus curiae The Coalition For Competitive Imports.

Before GIBBONS, Chief Judge, WEIS and GREENBERG, Circuit Judges.

OPINION OF THE COURT

WEIS, Circuit Judge.*

This case comes to us in the guise of an alleged copyright infringement but, in reality, is an attempt by a domestic manufacturer to prevent the importation of its own products by the "gray market." We conclude that, having sold its goods with copyrighted labels to foreign distributors, the manufacturer is barred by the first sale doctrine from establishing infringement through an unauthorized importation. Consequently, we will vacate a

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*At the time of oral argument on this case, the Honorable Joseph F. Weis, Jr., was an active circuit judge. Since that time, Judge Weis has assumed senior status.

preliminary injunction enjoining defendants from distributing within the United States, products that plaintiff had manufactured in this country and then exported.

Plaintiff, Sebastian International, is a California corporation which manufactures and markets personal care beauty supplies. The two items at issue here, WET and SHPRITZ FORTE, carry copyrights for the text and artistic content of their labels. Sebastian maintains that its marketing policy restricts retail sales to professional salons. This strategy is designed to establish Sebastian's image, enhance its reputation, and foster its commercial success.

In 1986, Sebastian entered into an oral contract with defendant Consumer Contacts (PTY), Ltd. d/b/a 3-D Marketing Services, in which 3-D agreed to distribute Sebastian beauty products to professional hair styling salons in South Africa, but not elsewhere. Sebastian shipped four containers of WET, SHPRITZ FORTE and other products valued at approximately $200,000 to 3-D in Edenvale, South Africa in January 1987. 3-D then reshipped the unopened containers back to the United States where customs released them on May 14, 1987.

One week later, Sebastian, alleging breach of contract, sought a preliminary injunction against distribution of the products in the United States. The district court granted a temporary restraining order and scheduled a hearing. Later Sebastian amended its complaint to allege that defendant Fabric, Ltd. had possession of the products, and that the copyrights on WET and SHPRITZ FORTE labels were being infringed.

When it became evident that Fabric had not known of the contractual limitations between Sebastian and 3-D, the district court lifted its initial restraining order. The court concluded, however, that the two Sebastian labels came within the purview of the Copyright Act and issued a preliminary injunction against infringement.

As the district court read the pertinent provisions of the Copyright Act of 1976, 17 U.S.C. Secs. 106(3), 109(a), 602(a), the copyright holder has a right to control importation of copies, regardless of where they were made and despite the occurrence of a "first sale." After surveying the limited case law and the legislative history, the court understood the 1976 Act to create two types of distribution rights for copies; one tied to the act of vending and the other to the act of importation. In the court's view, vending was limited by the first sale doctrine; importation was not. Thus, Sebastian's right to control importation was "not extinguished when those goods were first sold regardless of where plaintiff's products were first sold or first manufactured." *Sebastian Int'l., Inc. v. Consumer Contact (PTY) Ltd.*, 664 F.Supp. 909, 920 (D.N.J.1987).

Defendants appeal the issuance of the preliminary injunction and present two issues for review. First, they contend that Sebastian did not demonstrate irreparable harm. Second, they argue that the first sale doctrine extinguishes the claim for copyright infringement. Defendants do not presently challenge the district court's determination that the labels had valid copyrights, having reserved that issue in the district court until the hearing on the permanent injunction. Consequently, that issue is

not before us and in view of our disposition of this case, we do not discuss the irreparable injury aspect.

I.

The Copyright Act is based on article I, section 8 of the United States Constitution, which grants Congress power to "Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." These monopoly privileges are "neither unlimited nor primarily designed to provide a special private benefit." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429, 104 S.Ct. 774, 782, 78 L.Ed.2d 574 (1984). Instead, they promote an important public purpose by encouraging the creative activity of authors and by allowing public access to "the products of their genius after the limited period of exclusive control has expired." *Id.*

The copyright statutes have been amended repeatedly in an attempt to balance the authors' interest in the control and exploitation of their writings with society's competing stake in the free flow of ideas, information and commerce. *Id.* Ultimately, the copyright law regards financial reward to the owner as a secondary consideration.

The Copyright Act of 1976, 17 U.S.C. Secs. 101-810 (1982) (repealing Copyright Act of 1909, ch. 320, Sec. 41, 35 Stat. 1075), contains three sections relevant to the issues presented here. The first, 17 U.S.C. Sec. 106, states:

> "Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies . . .
>
> * * *
>
> (3) to distribute copies . . . to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . "

The distribution rights granted by subsection (3) are limited by the second provision, section 109(a), known as the "first sale" rule, which provides in pertinent part: "Notwithstanding the provisions of section 106(3), the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy. . . . "

The third provision, section 602(a), addresses importation and reads: "Importation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106. . . . "

A.

The first sale doctrine has a venerable lineage. The Supreme Court construed the right of exclusive sale held by copyright owners in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 28 S.Ct. 722, 52 L.Ed. 1086 (1908), and decided that it did not create an additional prerogative enabling the holder to restrict future resales. The Court refused to

find infringement when a retailer sold a novel at a price below that listed in the copyright notice, observing that copyright protection is wholly statutory and independent of any contractual rights. Because it had previously exercised the right to vend copies, the copyright owner could not retain any further control over subsequent sales. The Court phrased the issue in general terms, answering in the negative the question whether "the sole right to vend . . . secure[s] to the owner of the copyright the right, after a sale of the book to a purchaser, to restrict future sales of the book at retail . . . ?" *Id.* at 350, 28 S.Ct. at 726.

In *Columbia Pictures Indus. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir.1984), we commented that section 109(a) "is an extension of the principle that ownership of the material object is distinct from ownership of the copyright in this material. The first sale doctrine prevents the copyright owner from controlling the future transfer of a particular copy once its material ownership has been transferred." *Id.* at 159 (citation omitted). *See also Columbia Pictures Indus. v. Aveco, Inc.*, 800 F.2d 59, 64 (3d Cir.1986).

Similarly, the Court of Appeals for the Fifth Circuit wrote in *American Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir.1978), "[a]fter the first sale of a copy the copyright holder has no control over the occurrence or conditions of further sales of it. . . . The first sale thus extinguishes the copyright holder's ability to control the course of copies placed in the stream of commerce."

In describing the scope of section 109, the Senate Judiciary Committee reported:

> "Section 109(a) restates and confirms the principle that where the copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. Under this principle, which has been established by the court decisions and section 27 of the present law, the copyright owner's exclusive right of public distribution would have no effect upon anyone who owns 'a particular copy or phonorecord lawfully made under this title' and who wishes to transfer it to someone else or to destroy it."

S.Rep. No. 983, 93d Cong., 2d Sess. 131 (1974), *reprinted in* 13 Omnibus Copyright Revision Legislative History (1977).

The first sale rule is statutory, but finds its origins in the common law aversion to limiting the alienation of personal property. *See Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F.Supp. 881, 883 (E.D.Pa.1964); Colby, *The First Sale Doctrine – The Defense That Never Was?*, 32 J. Copyright Soc'y U.S.A. 77, 89 (1984). *See also* H.R.Rep. No. 987, 98th Cong., 2d Sess. 2, *reprinted in* 1984 U.S. Code Cong. & Admin.News 2898, 2899 ("the first sale doctrine has its roots in the English common law rule against restraints on alienation of property"); 2 M. Nimmer, *The Law of Copyright* Sec. 8.12 (1987).

There is, however, an economic reason for the rule as well. As the district court said in *Burke & Van Heusen*, "the ultimate question under the 'first sale' doctrine is whether or not there has been such a disposition of the copyrighted article that it may fairly be said that the

copyright proprietor has received his reward for its use." 233 F.Supp. at 884. *See Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir.1963). *See also Cosmair, Inc. v. Dynamite Enters., Corp.*, No. 85-0651, slip op. (S.D.Fla. Apr. 9, 1985) (1985 WL 2209).

B.

At first glance, section 602(a) – the importation clause – appears to clash with the first sale doctrine. We conclude, nonetheless, that the two provisions were intended to function interdependently and may be read in harmony with each other.

Section 602(a) creates an infringement of the exclusive right of distribution when copies acquired outside the United States are imported into this country without the copyright owner's permission. Congress added this section to the Copyright Act in 1976, responding to copyright holders who sought protection from unauthorized importation of copies.

Preliminary discussions leading to general revision of the copyright law continued for over twenty years, incorporated a series of major studies, and involved numerous meetings with representatives of interested parties. *See Mills Music, Inc. v. Snyder*, 469 U.S. 153, 159-61, 105 S.Ct. 638, 642-43, 83 L.Ed.2d 556 (1985). The hearings revealed the copyright owners' desire to prevent importation not only of "piratical copies" made without permission, but also of copies made by licensees in foreign countries. *See* Tyson & Parker, *Parallel Importation of Copyrighted Phonorecords*, 10 N.C.J. Int'l L. & Com. Reg. 397, 402-206 (1985);

Note, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U.J.Int'l L. & Pol. 113, 134-137 (1984).

The House Judiciary Committee acknowledged this concern when it explained, "[s]ection 602 . . . deals with two separate situations: importation of 'piratical' articles (that is, copies or phonorecords made without any authorization of the copyright owner), and unauthorized importation of copies or phonorecords that were lawfully made." H.R.Rep. No. 1476, 94th Cong., 2d Sess. 169, *reprinted in* 1976 U.S. Code Cong. & Admin.News 5659, 5785. Only the second situation is presented here.

C.

The interrelationship between sections 602(a) and 109(a) may be interpreted in two possible ways, although neither is conclusively supported by the statutory language or legislative history. The first, and most sweeping, construction declares that in addition to the distribution rights conferred by section 106(3), section 602(a) grants copyright owners yet another distinct right – one that frees them from the first sale right of section 109(a), which otherwise limits section 106(3), and allows them to prevent the unauthorized importation of copyrighted copies. The district court adopted that view in this case.

The second interpretation reconciles sections 106(3) and 602(a) by reasoning that the importation prohibition does not enlarge the distribution rights, but serves only as a specific example of those rights subject still to the first sale limitation. This analysis poses a problem in the case of unauthorized imports of copies made abroad pursuant to a license restricting sales to a particular country.

Although the domestic copyright holder undoubtedly would prefer to block such importation, the statutory language does not expressly authorize such control.

Early in the drafting deliberations for the 1976 Act, the Copyright Office argued against imposing "a territorial restriction in a private contract upon third parties with no knowledge of the agreement." Tyson & Parker, *supra* at 403 (quoting Staff of House Comm. on Copyright Law Revision, 87th Cong., 1st Sess., Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law (Register's Report) 126 (Comm. Print 1961). The Office, however, later changed its position on the scope of section 602(a), finally agreeing that both authorized and unauthorized copies should be covered. Tyson & Parker, *supra* at 404.

The appellate courts have had little occasion to analyze the interplay between the first sale doctrine of section 109(a) and the importation right of section 602(a), but the district courts have struggled with the problem in a number of situations. In *Columbia Broadcasting Sys. v. Scorpio Music Distrib.*, 569 F.Supp. 47 (E.D.Pa.1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir.1984), the district court found infringement when copies, produced and sold exclusively in the Philippines under a license agreement, were imported into the United States – where the plaintiff owned the sole distribution rights. The district court concluded that the words "lawfully made under this title" in section 109(a) grant first sale protection only to copies legally made and sold in the United States. *Id.* at 49.

In *T.B. Harms Co. v. Jem Records, Inc.*, 655 F.Supp. 1575 (D.N.J.1987), the court also found infringement when phonorecords manufactured under license in New Zealand were imported into the United States. The court reached that conclusion despite the compulsory licensing provision applicable to phonorecords, commenting that the preliminary negotiations behind sections 602(a) and 115 did not furnish a reliable gauge of congressional intent. In particular, the court was wary of statements made by special interest groups and was reluctant to consider such views as expressions of the congressional intent shaping the Copyright Act.

A similar problem arose in *Hearst Corp. v. Stark*, 639 F.Supp. 970 (N.D.Cal.1986), when books lawfully made in England were imported into the United States, where the plaintiff held the copyrights. The district court, finding an infringement, decided that the first sale doctrine did not modify the importation restraints of section 602(a). Id. at 976-77.

In *Nintendo of America, Inc. v. Elcon Indus.*, 564 F.Supp. 937 (E.D.Mich.1982), the court enjoined the defendants from distributing electronic audio-visual games made in Japan under a license expressly limited to the territories of Japan. The agreement prohibited importation into the United States, where the plaintiff owned all the distribution rights under copyright. *But Cf. Neutrogena Corp. v. United States*, No. 2:88-0566-1, slip op. (D.S.C. Apr. 5, 1988) (first sale defense available where goods manufactured in United States and sold to defendant by third party); *Cosmair, Inc.*, slip op., (section 109 limits section 602 where products manufactured in the United States and re-imported).

Scorpio and *Harms*, although not binding on us, demonstrate a significant difference from the factual situation presented here. In those district court cases, the copies were produced abroad and the sales occurred overseas. The courts reasoned that the foreign origin of both manufacture and sale made the first sale doctrine inapplicable. However valid that interpretation of the "lawfully made under this title" language of section 109(a) – and we specifically do not pass upon it in this case – it does not affect our decision here.[1]

II.

The facts, seen here in the context of the first sale doctrine, are not complex. We do not confront a license agreement or copies produced in a foreign country under that agreement by someone other than the owner; instead, this case centers on actual copies of labels printed in this country by the copyright owner. Sebastian produced and sold the same copies which it now seeks to control.

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[1] We confess some uneasiness with this construction of "lawfully made" because it does not fit comfortably within the scheme of the Copyright Act. When Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern.

Furthermore, we note that it is trademark law that emphasizes the source of origin; copyright law focuses instead on originality of authorship. The Supreme Court has cautioned against applying doctrine formulated in one area to the other. *See Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 439 n. 19, 104 S.Ct. 774, 787 n. 19, 78 L.Ed.2d 574 (1984).

Under the first sale doctrine, when plaintiff made and then sold its copies, it relinquished all further rights "to sell or otherwise dispose of possession of that copy." Unquestionably that includes any right to claim infringement of the section 106(3) distributive rights for copies made and sold in the United States. With respect to future distribution of those copies in this country,[2] clearly the copyright owner already has received its reward through the purchase price.

Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a "reward for his work." Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive "a more adequate award" than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

Consequently, we agree with the district court that the place of sale is not the critical factor in determining whether section 602(a) governs. We differ, however, with the district court's finding of infringement because, in our view, a first sale by the copyright owner extinguishes any right later to control importation of those copies.

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[2] Plaintiff concedes this point in its brief. "Sebastian submits that Sec. 602(a) prohibits importation into the United States of products incorporating copyright materials *irrespective of where the copies were manufactured*, if as here (i) the importation is without the authority of the United States copyright owner and (ii) the "first sale" of the products does not occur in the United States." Br. for Appellee at 9.

Section 602(a) does not purport to create a right in addition to those conferred by section 106(3), but states that unauthorized importation is an infringement of "the exclusive [section 106(3)] right to distribute copies." Because that exclusive right is specifically limited by the first sale provisions of Sec. 109(a), it necessarily follows that once transfer of ownership has cancelled the distribution right to a copy, the right does not survive so as to be infringed by importation.[3] The preliminary injunction was granted on the basis of an erroneous reading of the law and therefore must be vacated.

Although this case turns purely on copyright law, we recognize that the underlying "gray market," or "parallel importing," issues really are dominant. Various economic factors – including the manipulation of global currency standards – encourage transactions in which goods are produced in this country, shipped and sold to foreign concerns, and then returned to the United States for resale at less than the domestic prices.

This practice has led to complaints by manufacturers seeking a fair return on their costs of promotion and servicing of warranties in this country. Equally vocal are consumer advocates asserting the desirability of access to identical goods at lower costs. Because contractual remedies have proved inadequate, *see Johnson & Johnson Products v. DAL Int'l Trading Co.*, 798 F.2d 100 (3d Cir.1986), domestic manufacturers now invoke the copyright law to advance their economic interests. This twist

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[3] This situation differs from that in which a licensee manufactures the copy. In that instance, the copyright holder does not own the tangible copy.

has created the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself. We think that the controversy over "gray market" goods, or "parallel importing," should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly.

The order of the district court granting a preliminary injunction will be vacated, and the case will be remanded to the district court for disposition of the remaining issues.

Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.,
Case No. CV-92-7455-MRP (C.D. Cal.)

Partial Transcript of Proceedings on December 6, 1993

MR. BONNER:[1] We have not been given a hearing date [for oral argument in the Ninth Circuit in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*].

THE COURT: Wait until they see the problem.

MR. BONNER: I'm sure this case [*i.e., Drug Emporium*] will get their attention.

THE COURT: Nobody is going to decide this quickly. No one. Because everybody would recognize the significance of it.

MR. BONNER: It has significant ramifications for every product imaginable.

THE COURT: You know that because you haven't [sic] seen what's been filed following that decision.

MR. BONNER: Following which decision?

THE COURT: The one that we made in here [in *Drug Emporium*].

MR. BONNER: Your decision.

THE COURT: Yes. There have been countless cases filed here in the district.

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[1] Counsel for defendant C&C Beauty Sales, Inc.

AMARIGE
de
GIVENCHY
PARIS
VAPORISATEUR
EAU DE TOILETTE
NATURAL SPRAY
℮ 50 ml
BEAUVEX
1⅞ FL.OZ